

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK)

STAFF REPORT

ISSUE: Marlborough School (Marlborough) requests an amendment to certain financial covenants contained in a Master Loan Agreement dated June 1, 2008, among City National Bank, the Marlborough School and the I-Bank .

BACKGROUND INFORMATION: On April 22, 2008, the I-Bank approved Resolution 08-11 authorizing the issuance of a tax-exempt loan from City National Bank to the I-Bank in an amount not to exceed \$25,000,000 (Issuer Loan). The resolution further approved a loan of the proceeds of that loan from the I-Bank to Marlborough (Marlborough Loan). The Marlborough Loan for the purpose of paying or reimbursing to Marlborough the costs of the construction, acquisition, installation, furnishing and equipping of an approximately 105,000 square foot addition to the Marlborough's educational facilities located at 250 South Rossmore Avenue, Los Angeles, California 90004. The addition is planned to include an Academic Resource Center, a Visual Arts Center, two levels of underground parking and other ancillary educational facilities (Project). The Marlborough Loan also financed certain costs of issuance in connection with the Issuer Loan and the Marlborough Loan. The Staff Report dated April 22, 2008 and a copy of Resolution 08-11 are attached for a more complete description of the project and financing structure (see **Attachment A**).

NEED FOR AMENDMENT: The Issuer Loan and the Marlborough Loan are both reflected in the same document, a Master Loan Agreement. Marlborough advises that, in conjunction with City National Bank, it wishes to make certain changes to the terms of that document. These changes would limit Marlborough's ability to incur additional debt to finance certain other projects anticipated at the time the original Master Loan Agreement was entered into and, in addition, would amend a financial covenant test to ease Marlborough's ability to draw down proceeds of the Marlborough Loan.

These proposed amendments are the routine type of amendments that ordinarily would qualify for approval by the Executive Director under Resolution 08-35, relating to Delegation Authority to the I-Bank Executive Director. However, that resolution delegates to the Executive Director the authority to approve amendments only if the amendments do not require the consent of bond holders. In this case all of the parties to the Master Loan Agreement must approve amendments to the agreement. This essentially requires the approval of the sole "bondholder" in the transaction, and for that reason does not meet the technical limits of the delegation to the Executive Director.

RECOMMENDATION: Staff recommends approval of Resolution 09-28 authorizing an amendment to the Master Loan Agreement dated June 1, 2008, among City National Bank, Marlborough School, and the I-Bank.

Attachment A - April 22, 2008 Staff Report and Resolution 08-11

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Marlborough School (Marlborough)	Amount Requested:	Not to exceed \$25,000,000
Applicant Description:	Marlborough is a California nonprofit public benefit corporation that operates an independent urban day school for young women, grades 7 through 12, located in the Hancock Park area of Los Angeles. Marlborough is committed to delivering a college preparatory education in an environment imbued with high ethical values to a diverse group of students.	Date of Board Meeting:	April 22, 2008
		Resolution Number:	08-11
		Type of Bonds	Original Issue
Project Site:	250 South Rossmore Ave., Los Angeles, CA 90004 (Los Angeles County)	Prepared by: Andrea Kennedy	
Project Description:	The project (Project) involves the construction of an academic resource center, a visual arts center and two levels of underground parking.		
Uses of Bond Proceeds:	Bond proceeds (2008 Bonds) will be used to pay the costs of the Project, and pay costs of issuance.		
Public Benefits:	Marlborough provides strong academic curricula that emphasizes the process of personal growth, encourages cooperation, and fosters close association among members of the community to promote emotional, intellectual, and physical well-being in young women.		
	Financial aid of \$1.8 million was awarded to 14% of enrolled students. The faculty consists of 54 full time staff and 16 part time staff.		

Financing Structure:

Type of Issue:	Privately-placed fixed-rate securities in minimum initial denominations of \$500,000, or any integral multiple of \$5,000 in excess thereof.
Tax Status:	Tax-exempt 501(c)(3) bonds.
Term:	10 years.
Credit Enhancement:	None.
Credit Rating:	None.

Total Est. Sources of Funds:	Total Est. Uses of Funds:
	Project Costs
2008 Bond Proceeds	\$53,000,000
Capital Contribution	
	TOTAL USES
	\$53,000,000
TOTAL SOURCES	

Financing Team:

Bond Counsel:	Kutak Rock LLP
Purchaser:	City National Bank (Qualified Institutional Buyer)
School's Counsel:	Latham & Watkins, LLP

Staff Recommendation:

Staff recommends approval of Resolution 08-11 for an amount not to exceed \$25,000,000 for Marlborough School.

BACKGROUND AND HISTORY

Marlborough School (Marlborough) is a California nonprofit public benefit corporation that operates an independent urban day school for young women, grades 7 through 12, located in the Hancock Park area of Los Angeles. Marlborough is committed to delivering a college preparatory education in an environment imbued with high ethical values to a diverse group of students. Originally established in Pasadena in 1889 as St. Margaret's School for Girls, Marlborough moved to Los Angeles in 1890, and adopted the name of its new location at the corner of Third Street and Marlborough Avenue.

Marlborough currently has an enrollment of 530 students with 14% receiving financial aid. The faculty consists of 54 full time staff and 16 part time staff. The tuition for 2007-2008 year is \$26,750. Student body is comprised of young women from the greater Los Angeles area. Students of color represent nearly 40% of the student body.

In May 1962, Marlborough ushered in a new era as a non-profit foundation with its own Board of Trustees that launched the School's first fund-raising campaign, "Marlborough of the Future," to invest in new buildings, campus expansion, and endowment funds. Marlborough began purchasing additional properties adjacent to the campus and the trustees earmarked endowment funds specifically for faculty salaries and student financial assistance.

Marlborough provides a learning environment where young women develop self-confidence, creativity, a sense of responsibility, and moral decisiveness. The educational program encourages students to discover their potential, to think critically, and to develop intellectual curiosity. Students learn to set priorities, develop decision-making skills, and value the process of the educational experience. Marlborough emphasizes the process of personal growth, encourage cooperation, and foster close association among members of the community to promote emotional, intellectual, and physical well-being.

Current Marlborough leadership is listed in Appendix A.

PROJECT DESCRIPTION

Bond proceeds will be used to pay the cost or reimburse the cost of the construction of a 105,000 square foot additional to the educational facilities, including an academic resource center, a visual arts center, two levels of underground parking and other ancillary educational facilities (Project), and payment of bond issuance costs (see Appendix B--Project Diagram).

The academic resource center will expand the existing library and technology facilities and provide for integration and centralization of high-quality print and electronic resources. It will also promote information literacy, technological fluency, and mastery of both print and electronic media.

The visual arts center will enrich existing course offerings, expanding the curriculum to include the digital arts, support a gallery space to display artistic exhibits of student and professional artists, and create state-of-the-art studios. The new construction will update aging infrastructure in environmentally sound ways, providing students with the necessary resources such as specialized lighting for drawing and painting, and technology for digital design.

Two levels of underground parking will provide strategic and efficient utilization of the property allowing for improved security, delivery of supplies and materials, traffic flow and on-site storage.

Project construction began in January 2008 and is expected to be complete by December 2009.

FINANCING STRUCTURE

Upon approval the I-Bank will obtain a tax-exempt loan in an amount not to exceed \$25,000,000 (Issuer Loan) from City National Bank (Lender), a Qualified Institutional Buyer (QIB) as defined in Section 144(A) of the Securities Act of 1933 (Act), as amended, and will loan the proceeds from the Issuer Loan to Marlborough (Loan). The I-Bank will assign the payments due under the Loan pursuant to a loan agreement between the I-Bank and Marlborough (Loan Agreement) to the Lender to satisfy the I-Bank's obligations under the Issuer Loan. Repayment of the Issuer Loan will be made solely from revenues to be received by the Lender (as assignee of the I-Bank) from Marlborough's payments under the Loan.

The Lender will sign a Sophisticated Investor Letter (Letter) at closing certifying, among other things, that (i) it is a QIB or an Accredited Investor, as defined in Rule 501(a) under the Act, as appropriate; (ii) it has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the Loan and that it is able to bear the economic risks of such investment; and (iii) it will prohibit the resale of the Loan, except to another QIB or Accredited Investor signing a Letter.

In no event shall the Loan constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the Bonds. The Issuer Loan shall constitute a special obligation of the I-Bank, payable solely from revenues or other sources provided for in the Loan Agreement.

PUBLIC BENEFITS

Marlborough provides a strong academic curricula that emphasizes the process of personal growth, encourages cooperation, and fosters close association among members of the community to promote emotional, intellectual, and physical well-being in young women.

Students are encouraged to perform community service, and projects can take place on campus during the school day, after school, and on weekends. The Service Honor Society recognizes any student who gives a minimum of 100 hours to a single agency over the course of a calendar year. Since its inception in 2000, nearly 40 students have reached this goal.

Monthly community projects:

- Food-of-the-Month is collected at Marlborough and distributed at the HopeNet Pantry on Saturday mornings. Over 300 very low income families receive non-perishable groceries each week.
- Bag lunches are prepared for distribution by Covenant House Shelter and Outreach to homeless teens in the Hollywood area. About 150 peanut butter and jelly sandwiches, fruit, and treats are packed each month on campus during Lunch.
- Crafts or cards are made for Children's Hospital patients or local shelters to mark holidays or just to say, "Hello, we're thinking of you."
- Binky Blankets are made for children in police care, the homeless, or senior citizens.
- Toiletries and snacks are packed in decorated bags for the Greater West Hollywood Food Coalition, which serves the homeless a warm dinner every night on the corner of Romaine and Sycamore near La Brea.
- Junior Service League (7th and 8th grades) and Community Service League (9th-12th grades) meet weekly to plan their own schedules of activities.
- After-school tutoring takes place Monday-Thursday at 3rd Street Elementary School.
- Fund-raisers to support agencies working on cancer and AIDS research, environmental programs, women's issues, world hunger, and natural disaster relief are sponsored throughout the year by athletic teams, interest clubs, the student council or by grade level representatives.

Dollars and \$ense, a financial literacy program, is run by Marlborough's Community Service Department and is a prerequisite for girls interested in being on the board of the Marlborough Student Charitable Fund.

In 2007-08, 14% of enrolled students receive financial aid with grants averaging between \$11,700 and \$25,500.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, Describe: All approvals have been obtained.
TEFRA	
Date of TEFRA	April 21, 2008
Publications	<i>The Sacramento Bee</i> <i>Los Angeles Daily Journal</i>
Oral/Written Comments	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Applicant meets all of the I-Bank eligibility criteria? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. Project is in the State of California. 2. Marlborough is capable of meeting the obligations incurred under relevant agreements. 3. Payments to be made by Marlborough to the I-Bank under the proposed financing agreements are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments. 4. The proposed financing is appropriate for the Project.
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

RECOMMENDATION

Staff recommends approval of Resolution 08-11, for an amount not to exceed \$25,000,000 for Marlborough School.

APPENDIX A—LIST OF OFFICERS AND TRUSTEES

Officers

Barbara E. Wagner
Head of School

Nick Hernandez
Director of Finance and Operations

Marlborough School Board of Trustees

Gretchen Hartnack Milligan
President

J.P. Guerin
Treasurer

R. Robert Ralphs

Judy Belk

Cathleen Collins Hession

Helen Lho Ryu

Carol J. Bennett, M.D.
Vice President

Laura Noll La Shelle
Secretary

James J. Selton, Jr.

Wm. Harold Borthwick

Kara Lew Larew

Peter Shoemaker

Robert E. Buce
Vice President

Jennifer Cook Lewis

Eric B. Siegel

John B. Emerson

Patricia C. McKeever, M.D.

Kathy Smith

Laura Horton Furey

Palmer Murray

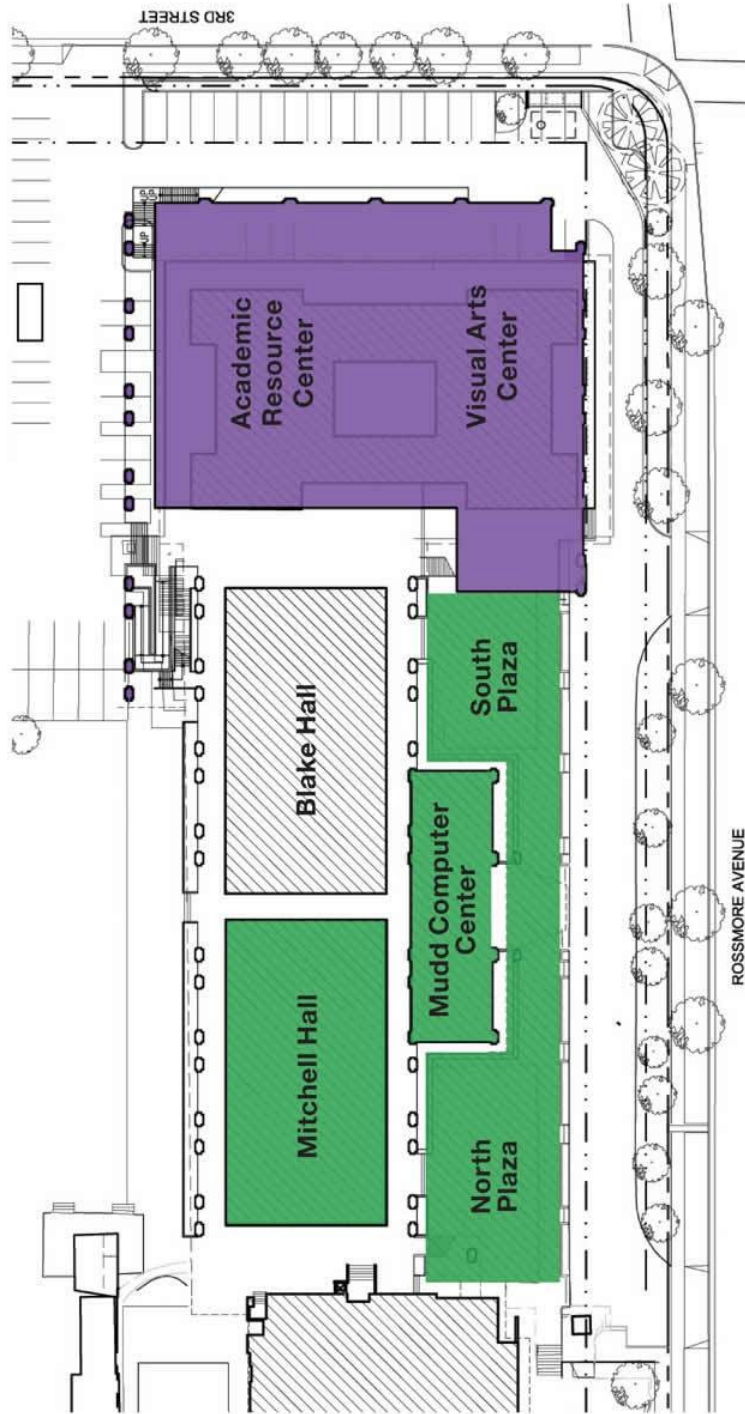
Stephen L. Smith

Maureen Haight Gee

Michael Parks

Peter Taylor

APPENDIX B – PROJECT DIAGRAM



The site plan above shows the School's renovation plans, including as shown in purple, the construction plans for the new Academic Resource Center, Visual Arts Center, and underground parking facility (below grade).

RESOLUTION NO. 08-11

RESOLUTION OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK AUTHORIZING AND APPROVING A MASTER LOAN AGREEMENT AND A LOAN IN AN AMOUNT NOT TO EXCEED \$25,000,000 FOR THE PURPOSE OF FINANCING AND REFINANCING THE COST OF THE CONSTRUCTION, ACQUISITION, INSTALLATION, FURNISHING AND EQUIPPING OF CERTAIN FACILITIES FOR THE BENEFIT OF MARLBOROUGH SCHOOL, PROVIDING THE TERMS AND CONDITIONS OF SAID LOAN AND OTHER MATTERS RELATING THERETO AND AUTHORIZING THE EXECUTION OF CERTAIN DOCUMENTS HEREIN SPECIFIED

WHEREAS, the California Infrastructure and Economic Development Bank (the "Issuer") was established pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (California Government Code Section 63000 et seq.), as now in effect and as it may be amended or supplemented (the "Act"), for the purpose of, among other things, providing financial assistance for the design, construction, financing and development of economic development facilities (as such term is defined in the Act) located in the State of California (the "State"); and

WHEREAS, the Issuer is authorized to issue tax-exempt and taxable revenue bonds to provide financing for economic development facilities pursuant to the Act; and

WHEREAS, Marlborough School, a California nonprofit public benefit corporation (the "Borrower"), has submitted an application to the Issuer to make, from time to time, pursuant to a plan of finance, a tax-exempt loan (the "Borrower Loan") to the Borrower to pay the cost of or reimburse the Borrower for, (1) the construction, acquisition, installation, furnishing and equipping of an approximately 105,000 square foot addition to the Borrower's educational facilities located at 250 South Rossmore Avenue, Los Angeles, California 90004, which will include, but not be limited to, an Academic Resource Center, a Visual Arts Center, two levels of underground parking and other ancillary educational facilities and (2) certain costs of issuance in connection with the Issuer Loan (as hereinafter defined) and the Borrower Loan (collectively, the "Project"); and

WHEREAS, the Issuer intends to use the proceeds of a tax-exempt loan (the "Issuer Loan" and, together with the Borrower Loan, the "Loans") received from City National Bank (the "Lender") to make the Borrower Loan;

WHEREAS, for purposes of financing a portion of the cost of the Project, the Issuer now desires (a) to authorize the making of the Loans, from time to time, pursuant to a plan of finance, in an aggregate principal amount not to exceed \$25,000,000, (b) to provide for the payment of the principal of, premium, if any, and interest on the Issuer Loan with revenues derived from the Borrower Loan pursuant to the terms and provisions of the Master Loan Agreement (as hereinafter defined), and (c) to take and authorize certain other actions in connection with the foregoing; and

WHEREAS, the Issuer may not enter into the Loans to finance the Project until the Board of Directors of the Issuer makes certain determinations relating to the Project as required by the Act; and

WHEREAS, there is now on file with the Secretary of the Issuer a proposed form of the Master Loan Agreement (the "Master Loan Agreement"), to be entered into by and among the Lender, the Issuer and the Borrower;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors (the "Board") of the California Infrastructure and Economic Development Bank, as follows:

Section 1. The form of the Master Loan Agreement on file with the Secretary of the Issuer is hereby approved and the Chair of the Issuer or the Chair's designee and the Executive Director of the Issuer, and each of them, acting alone, is hereby authorized and empowered to execute by manual or facsimile signature and deliver the Master Loan Agreement, and the Secretary of the Issuer is authorized to attest thereto, with such changes and insertions therein as may be necessary to cause the same to carry out the intent of this Resolution and as are approved by counsel to the Issuer, such approval to be conclusively evidenced by the delivery thereof.

Section 2. The Issuer approves the Issuer Loan on a tax-exempt basis and the making of the Borrower Loan to the Borrower, each in an amount not to exceed \$25,000,000 in accordance with the terms of and to be secured by the Master Loan Agreement. Payment of the principal of, premium, if any, and the interest on, the Issuer Loan shall be made solely from the revenues to be received by the Issuer from the Borrower Loan pursuant to the terms of the Master Loan Agreement, and the Issuer Loan shall not be deemed to constitute a debt or liability of the State or any political subdivision thereof. The Loans shall bear interest at the rates to be determined in accordance with the Master Loan Agreement.

Section 3. Pursuant to Section 63046 of the Act, and based upon representations made by the Borrower, the Board of Directors of the Issuer hereby finds and determines:

- (a) that the Project is located in the State;
- (b) that the payments to be made under the Master Loan Agreement by the Borrower to the Issuer are adequate to pay the current expenses of the Issuer in connection with the financing and to make payments on the Borrower Loan;
- (c) that the Loans are an appropriate financing mechanism for the Project;
- (d) that the Project is consistent with any existing local or regional comprehensive plans; and
- (e) the Project demonstrates clear evidence of a defined public benefit.

The finding with respect to Section 63046(b) of the Act is based solely upon the willingness of the Lender to provide the funds for the Loans.

Section 4. The Chair of the Issuer or the Chair's designee and the Executive Director of the Issuer, and each of them, acting alone, is hereby authorized and directed to execute all documents, certificates and instruments necessary or appropriate to this transaction and the Loans including, without limitation, a tax regulatory agreement, a no arbitrage certificate and supplements or amendments to the Master Loan Agreement, which they or bond counsel may deem necessary or advisable in order to consummate the Loans and otherwise to effectuate the purposes of this Resolution.

Section 5. All actions heretofore taken by the officials of the Issuer with respect to the Loans are hereby approved, confirmed and ratified, and the officials of the Issuer and their authorized designees are hereby authorized and directed, jointly and severally, to do any and all things and to effectuate the purposes of this Resolution.

Section 6. This Resolution shall take effect from and after its adoption.


PASSED, APPROVED, AND ADOPTED at a meeting of the California Infrastructure and Economic Development Bank on April 22, 2008, by the following vote:

AYES: Matteucci, Rosenstiel, Arnold, Saragosa, Rice

NOES: None

ABSENT: None

ABSTAIN: None

By 
Stanton C. Hazelroth, Executive Director

Attest:

By 
Roma Cristia-Plant, Secretary